

Message Text

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E.O. 11652: GDS

TAGS: PFOR, MARR, MASS, TU

SUBJECT: TURKISH BASE NEGOTIATIONS - ARTICLE XX: INTEREST
RATES

REF: (A) STATE 36594, (B) ANKARA 1595

1. WASHINGTON AGENCIES HAVE AGAIN REVIEWED INTEREST RATE
FORMULATIONS PROPOSED REFTELS FOR ARTICLE XX PARA 2, AND
HAVE CONCLUDED THAT US GOVERNMENT IS NOT IN A POSITION
TO ENTER INTO A MULTI-YEAR UNDERTAKING AS IT RELATES TO
USG COMMITMENT TO A SPECIFIC FORMULA FOR CALCULATING
INTEREST RATES. WHILE WE HAVE EVERY INTENTION OF PROVID-
ING GUARANTEED LOANS TO TURKEY THROUGH THE FEDERAL FINANC-
ING BANK (FFB), OUR RELUCTANCE TO COMMIT OURSELVES ON
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PAPER TO THIS EFFECT STEMS FROM POSSIBLE CHANGES IN US LAW

WHICH COULD PRECLUDE OR LIMIT FFB PARTICIPATION IN US GOVERNMENT GUARANTEED FMS FINANCING. IN THIS EVENT, US GOVERNMENT GUARANTEED LOANS WOULD BE PROVIDED THROUGH COMMERCIAL LENDERS WHOSE INTEREST RATES WE CANNOT CONTROL, ALTHOUGH US TREASURY DEPARTMENT WOULD FACILITATE THESE LOANS AND GUARANTEE REPAYMENT. INTEREST RATES ON SUCH LOANS HAVE HISTORICALLY BEEN LOWER THAN THAT OBTAINABLE FOR A NEGOTIATED COMMERCIAL LOAN WITHOUT A USG GUARANTEE.

2. WITH FOREGOING RATIONALE, FOLLOWING LANGUAGE IS ALL WE CAN PROVIDE IN FOURTH SENTENCE TO RESPOND TO TURKISH CONCERNS THAT USG SPECIFY INTEREST RATE ON FUTURE FMS CREDITS: QUOTE CREDITS AND GUARANTEED LOANS HEREIN PROVIDED FOR SHALL, CONSISTENT WITH US LAW, BE AT INTEREST RATES COMPARABLE TO THE RATES OFFERED TO OTHER COUNTRIES FOR SIMILAR FMS CREDITS AND GUARANTEED LOANS. UNQUOTE.

3. WE RECOGNIZE THAT DRAWING BACK FROM A PREVIOUSLY PRESENTED POSITION ON A SUBJECT OF THIS IMPORTANCE COULD CAUSE DIFFICULTY IN THE NEGOTIATING PROCESS. WE THEREFORE LEAVE TO YOUR DISCRETION THE MANNER AND TIMING OF YOUR PRESENTATION OF THIS LANGUAGE TO THE TURKS, ALTHOUGH IN RE-INTRODUCING SUBJECT, YOU SHOULD AGAIN EXPLAIN US PREFERENCE THAT THERE BE NO RPT NO MENTION OF INTEREST RATES IN THE AGREEMENT.

4. FYI. IN EXPLAINING USG POSITION, YOU MAY WISH TO INFORM TURKS THAT DURING RECENT NEGOTIATIONS ON SPANISH TREATY, USG EXPLAINED HOW INTEREST RATE IS DETERMINED ON USG-GUARANTEED FMS CREDIT. SPANIARDS DID NOT REQUEST LANGUAGE COMMITTING USG TO A SPECIFIC INTEREST RATE OR INTEREST RATE FORMULA FOR FUTURE USG-GUARANTEED FMS CREDITS AND SUCH LANGUAGE DOES NOT APPEAR IN THE TREATY. THE FOLLOWING ON GUARANTEED LOANS APPEARS IN SPANISH TREATY: QUOTE. THE GOVERNMENT OF THE UNITED STATES WILL ISSUE REPAYMENT GUARANTEES UNDER ITS FOREIGN MILITARY SALES PROGRAM TO FACILITATE THE EXTENSION OF LOANS TO THE GOVERNMENT OF SPAIN BY ELIGIBLE LENDERS FOR THE PURPOSE OF FINANCING THE PURCHASE BY THE GOVERNMENT OF SPAIN OF DEFENSE ARTICLES AND DEFENSE SERVICES IN FURTHERANCE

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OF THE PRESENT TREATY OF FRIENDSHIP AND COOPERATION. THE AGGREGATE PRINCIPAL AMOUNT OF LOANS GUARANTEED BY THE GOVERNMENT OF THE UNITED STATES IN ACCORDANCE WITH THIS ARTICLE SHALL TOTAL \$120,000,000 DURING EACH OF THE FIVE YEARS DURING WHICH THE PRESENT TREATY OF FRIENDSHIP AND COOPERATION SHALL REMAIN IN FORCE. UNQUOTE. END FYI.

INGERSOLL

NOTE BY OC/T: DISSEMINATION COORDINATED WITH S/S-O, MR. MACFARLANE
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